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DISCUSSION PAPER NO. 9
SORTING OUT CAUSES
OF PERFORMANCE RESULTS

by

H.E. McCandless

NOVEMBER 1982

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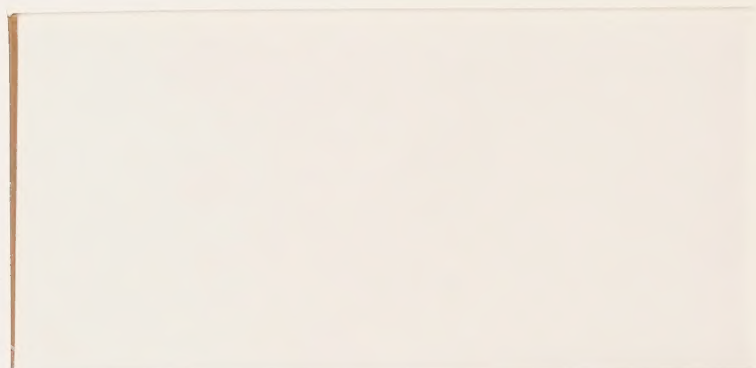
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SORTING OUT CAUSES OF PERFORMANCE RESULTS

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Introduction

Increasingly, the work of auditors in the public sector is going beyond reporting observations to include making recommendations to fix underlying problems or weaknesses. Whether we talk of compliance, operational, broad-scope, or comprehensive auditing, audit reports should produce recommendations that will actually make a difference to economy, efficiency, and effectiveness. A fundamental proposition is that the effectiveness of an audit, whether external or internal, depends on understanding the causes of variances from criteria that are deemed reasonable as performance standards for management in the circumstances. Accurate attribution of causes of variations to the underlying reasons for them increases the auditor's credibility with line management. Moreover, if we can identify the probable fundamental causes of performance results, we then know the types of problems or issues management and legislators must come to grips with to produce the performance they want. This should make our recommendations more useful as guides to lasting corrective action.

The purpose of this discussion paper is to suggest a basic set of causes of various performance results for any audited organization. The auditor can use it as a checklist to help ensure that, as far as possible, audit findings and conclusions consider all plausible causes of deficiencies in performance and recommendations cover the main areas for corrective action to improve performance. Where performance meets or exceeds expected levels, time is seldom devoted to examining the underlying reasons, although this would be a useful approach. This paper will be concerned with the more pressing problem of improving performance results by sorting out causes of deficiencies and recommending corrective action.

Understanding Performance Attribution

Let's assume that a subordinate fails to complete an assigned project within a deadline. He or she then reflects on this failure. The person might intuitively run through an analysis of possible reasons, in a rough sort of way, to reach a conclusion on cause. Was it my fault or did my superior fail to help me enough? If it was my fault, was it my lack of ability or my lack of trying? Was it luck, perhaps? At the same time, the person's superior might also undertake a very diligent attribution process about the missed deadline, preferably with the subordinate. The manager might attribute the failure to quite different reasons than the subordinate did. Each will have a stake in the attribution process, because it could have important consequences not only for the subordinate's future but also for the manager's success.

The processes that people employ to account for observed behaviour in themselves and others are part of the discipline of social psychology known as attribution theory. In assessing performance of operating groups and organizations, auditors can make good use of the results of social psychologists' research.

It makes a difference, for example, whether we attribute observed performance to causes within the control of the audited entity or to factors beyond its control. Fritz Heider, the father of attribution theory, used the simple example of a man rowing a boat upstream in a river. If we see that he is making no headway in relation to the land, why is it so? Is it because he doesn't know how to row properly? Or is it because he isn't putting enough effort into the task? Or is it because the river is simply running too fast?

Heider summed it up in a simple statement: action outcomes are a function of "can" and "trying". "Can" is the net effect of ability and those environmental factors that reduce one's ability in the circumstances. "Trying" is the intention or direction of effort and the level of that effort -- in other words, motivation. Since few social psychologists apply their work to formal organizations, auditors need to consider another basic element, introduced by writers and researchers in the discipline of organizational behavior: the structure of organizations. It can be argued that structure -- the regular pattern of interaction -- is a function of environment, ability, and motivation, but for our purposes it is a sufficiently important variable in its own right to be considered separately.

Before we get into the question of auditing organizations, let's look at some commonly used attribution processes. Research in social psychology has

suggested a number of predispositions or biases that individuals or groups exhibit in accounting for their own behaviour or the behaviour of others that they observe. Transplanted into an organizational context, some of these are useful for the auditor to bear in mind. Examples of attribution notions or hypotheses are:

- **The self-serving bias:** people can be expected to attribute success to factors within their control and failure to factors beyond their control.
- **The "sufficient reason" search:** some people tend to stop the search for causes when they come across a reason which, to them, adequately explains the performance results. Others tend to look for all possible causes; this can lead to "information overload".
- **Primacy-recency bias:** a possible source of distortion that produces inaccurate attributions is the assimilation or fitting of evidence into whatever beliefs or attitudes a person holds as a result of earlier inquiry or experience. Attitudes and judgements might, on the other hand, be more influenced by the most recent experience ("If you want to know where Tom stands, just find out who was last in his office").
- **"Personality" bias:** because of the deeply entrenched assumption that behaviour is largely a function of "personality", we may find

that observers tend to attribute behaviour to traits within a person, whereas that person, because of a greater awareness of all the contributing factors, may tend to locate the prime causes elsewhere. Research by Walter Mischel has suggested (contrary to our beliefs) that the only traits that tend to be stable across time and changed circumstances are those that relate to ability.

The extent to which people's attribution tendencies in observing individuals in laboratory or social settings hold for attributions about groups and divisions in organizational settings would be an interesting research issue. Until more is known, speculation can be useful.

Basic Causes of Performance Outcomes in the Audited Organization

As mentioned earlier, social psychology and organizational behaviour research suggest that there is a set of four basic categories of variables that combine in various ways to produce various performance results. These variables are: organization structure, environmental constraints, ability, and motivation. Attribution biases will tend to weight these factors differently depending on who is doing the observing. The auditor has to strive for objectivity and try to understand what is likely causing what.

Organization Structure. Definitions of organization structure are legion, but here we mean regular work-related patterns of interaction of people in the organization. If A tends not to talk to B and their work is interrelated, then

the structure of their relationship will have a bearing on performance. At the corporate level Lawrence and Lorsch, in their studies on organizational differentiation and integration, argue that successful organizations tend to have sub-units structured in ways that are appropriate strategically for their relationships with each of their respective external environments, customers or clients. But the greater this differentiation of structure across the organization, the more the organization needs internal integrating structures to maintain corporate cohesiveness and reduce conflict. If the structure of an organization is inappropriate, either for the task to be done or for "boundary maintenance" with its particular environment, we can expect the performance of that unit to suffer. (See Prof. Martin Evans' paper in this series, on organization structure).

An organization's structure is always created by people, but the problem is that it is often seen as something beyond the group's control. The structure of a unit or project may be uncontrollable by the particular group if it is predetermined by higher management, and therefore could be regarded as an environmental factor for that group.

Environmental Constraints. Environmental constraints include any external force or influence beyond an entity's control. For organizations, these could include such factors as competitors, legislation, the state of the economy, or even board members whose function is primarily to serve the interests of the stakeholders they represent. For sub-units, environmental constraints can include other departments, established norms of the organization, central allocation of funds, and so on. Whether or not a manager should be classified as an environmental constraint on a group depends on how much his or her behaviour

influences and is itself influenced by the group. Norms of the organization could be considered environmental causes of performance results to the extent that they condition the beliefs, attitudes, intentions and behaviour of those in the organization.

Ability. Ability includes both technical skills and personal skills. It would also include the quality of the organization structure within a group, if the group has the power to shape its own organization structure the way it wants. Ability is the capacity to perform, and is separate from motivation.

Motivation. Motivation embraces the range of intrinsic and extrinsic factors influencing the will or tendency of an individual or group to do something, or refrain from doing something, in a particular set of circumstances. It incorporates the level of effort, or how hard one tries, with the direction of activity, or what one intends to do.

Distinguishing the Causes of Performance Results

Like the manager and the subordinate in their attribution processes, the auditor might start by attempting to find out if performance is caused by a single over-riding factor or a number of factors in accounting for observed performance against an audit criterion. A manager, for example, might be willing to undertake an intensive analysis of a subordinate's or group's performance. The manager might consider many factors if he or she has a high stake in understanding what contributed to a particular performance outcome.

To maintain credibility, the auditor therefore has to take care that the search for possible causes isn't simply intuitive and doesn't aim for a handy and apparent single cause that makes for faster and easier fieldwork and reporting. The auditor should remember that although he can claim to be objective about the causes of performance, he is unlikely to know as much about the causes, or what weight to give them, as the members of the organization being audited.

The second step would then be to try to locate the causes of performance results. Do the major causes lie within the control of the audited entity or outside its control? As we have already suggested, this attribution step is important if we want our recommendations to address the most likely underlying causes of problems. It also raises the question of the need for some recommendations to be sent beyond the boundaries of the entity being audited.

Because of senior management's tendency to "score-card" its managers, the auditor should assess whether management's performance attribution processes are fair. This should be an extension of the internal auditor's mandate, but it is a sensible goal. There are few limitations today on the range of systems and procedures subject to internal audit review; there is therefore a need for auditors to expand their competence in understanding the managerial process and organizational behaviour.

Improving Audit Recommendations

The usefulness of an audit report depends on the quality of the findings and conclusions (which we refer to as observations), the quality of the

recommendations, and the degree of acceptance of those observations and recommendations. The better the auditor's understanding of the reasons for observed performance, the higher the credibility of the observations and, it seems likely, the higher the quality and acceptance of the recommendations. But recommendations should be specific enough to be guides to action by the person or group with power to implement those recommendations. Our basic set of performance determinants should also be used as a checklist to help identify which key variables have to be highlighted and worked on to achieve the performance expected by shareholders or taxpayers.

Auditors will increase their credibility with managers if they demonstrate an understanding of the plausible causes of organizational problems. They will be even more helpful to management if they can help to pinpoint the particular determinants of performance that have to be worked on to achieve the desired performance.

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